BRITISH COLUMBIA

BC STATS

Ministry of
Management Services

Infoline

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Issue: 03-30

July 25, 2003

- **Private and public sector organizations expect investment to increase 7.6% in 2003**
- **Inflation continues to moderate in June**
- **BC's homicide rate climbs in 2002, in the wake of the pig farm discovery**

Public and Private Investment

- **BC public and private sector organizations surveyed in the second quarter were more bullish about their spending plans than they had been at the beginning of the year.** Investment in structures and equipment is now forecast to increase 7.6% this year, up from the previous estimate of 6.3% reported in February. Both public (+5.3%) and private (+8.3%) sector establishments anticipate substantial increases in investment spending this year. The increase is expected to come primarily from new construction, which is forecast to rise 11.4% as spending on both residential (+11.1%) and non-residential (+11.6%) structures increases at double-digit rates. Purchases of machinery and equipment, however, are expected to be only slightly higher (+1.1%) than in 2002.

  With the exception of communication and utilities (-9.3%), most industries in the province expect to increase their spending on fixed capital this year. Investment by primary industries is forecast to rise 29.3%, and the manufacturing sector plans to boost spending 23.6% in 2003.

  Source: Statistics Canada

- **Across the country, investment spending is expected to advance 4.0% in 2003.** Nunavut (+20.2%) and New Brunswick (+11.2%) are forecast to lead the way, while Quebec (+9.9%) and BC (+7.6%) are also expected to make strong showings. For the second time in the last three years, it is anticipated that investment spending in BC will increase faster than the national average, as BC plays catch-up after spending most of the 1990s in the doldrums. The improvement in the housing market has been an important factor in the advance.

  Source: Statistics Canada

Prices

- **British Columbia's inflation rate continued to moderate in June, falling to 1.7% (year-over-year).** The inflation rate had topped three percent at the beginning of the year, but has been falling since April as energy prices have begun to level off after soaring during the winter. They were up 2.8% in June. Clothing and footwear (-0.6%) prices continued a year-long decline, and lower prices for personal care products and services (-3.1%) also provided some relief to consumers. However, prices for most commodities were higher than in June 2002. Tobacco (+14.5%) prices continued to skyrocket.

  Source: Statistics Canada

- **BC residents enjoyed one of the lowest inflation rates in the country in June.** Last month, only Manitoba (1.1%) saw a lower increase in the overall price level. The Canadian inflation rate was 2.6%, with all provinces except Manitoba, BC, and Saskatchewan (1.9%) seeing price increases in excess of two percent. Alberta's 4.8% inflation rate was the highest in the country. Both Vancouver (1.5%) and Victoria (1.6%) recorded modest increases in the overall price level.

  Source: Statistics Canada

The Economy

- **Sales by retailers in the province fell 0.5% (seasonally adjusted) in May, as retail activity in the province remained sluggish.** Sales at supermarkets, food stores and gas stations were all down in May. Clothing stores posted modest gains, possibly because low prices encouraged consumers to expand to their wardrobes.

  Canadian sales were also weak (+0.3%) in May, reflecting lacklustre retail activity in most parts of the country. Ontario (+1.6%) and Quebec

Report The Productivity Puzzle-BC's Achilles heel

Did you know...
Quebec is still the counterfeiting capital of Canada, but BC's catching up. In 1977, just 5% of the counterfeiting cases reported by police were in BC, while Quebec was home to 77% of the counterfeiters. Last year, BC accounted for 18% of the total. Quebec's share was 35%.

(+0.6%) were the only provinces to record a significant increase. Manitoba retailers saw sales edge up 0.3%, but store owners in the rest of the country had a disappointing month.

Source: Statistics Canada

Property taxes

- **Canadian homeowners paid 3% of their family income on property taxes in 1998, while income taxes absorbed 21%.** Families with an income less than $20,000 paid more than twice as much in property taxes (10% of their income) as they did in income taxes (4%). At the opposite end of the scale, families with an income of $100,000 or more spent 2% of it on property tax, and 29% on income tax. Average property taxes were highest in Ontario ($2,230) and Quebec ($2,030). They were lowest ($640) in Newfoundland. The effective property tax (tax paid relative to the value of property) was highest in Quebec and Manitoba (both at 1.9%). BC, where property values are the highest in the country, had an effective property tax rate of 0.7%. *Source: SC, The Daily*

Non-store retailers

- **Non-store retailers–sellers who do not market their products from a fixed location–acccounted for 3% ($10.5 billion) of total retail business in Canada in 2001.** Fuel dealers had the highest sales, generating nearly half (45%) of total revenues. Electronic shopping and mail-order businesses (33%) and direct sellers (15%) also had a sizeable chunk of the market. Vending machine operators and coffee services had the smallest market share (7%). *Source: SC, The Daily*

Crime

- **British Columbia's crime rate rose last year, increasing to 11,551 non-traffic crimes reported for every 100,000 people living in the province.** This was largely due to a higher incidence of property and other non-violent crimes. In addition, the discovery of human remains on a pig farm in Coquitlam, which resulted in 15 missing-persons cases being confirmed as murders, boosted the number of homicides recorded in the province last year to 126 (homicides are counted in the year in which they are reported). As a result, BC's homicide rate rose to 3.04, its highest level since 1996.

  Counterfeiting (217 per 100,000 population), prostitution (43), possession of stolen goods (148) and motor vehicle theft (869) rates all increased substantially between 2001 and 2002. However, the number of violent crimes (1,199) and drug offences (544) reported in the province declined last year. Most (398) of the drug offences were cannabis-related.

  Source: SC, Catalogue 85-002, Vol 23, no 5

- **BC had the second-highest crime rate among the provinces, after Saskatchewan, where the 2002 rate was 13,368 per 100,000 population.** The national rate was 7,590. Quebec (5,697) and Newfoundland (5,832) were the provinces with the lowest reported crime rates.

  Source: SC, Catalogue 85-002, Vol 23, no 5

- **Sexual offences accounted for just 1% of the 2.4 million Criminal Code incidents reported by police in Canada last year.** This proportion has remained unchanged for the last 10 years. However, sexual crimes (primarily sexual assaults) made up 9% of the 303,294 violent incidents reported in 2002.

  In 2002, there were 91 sexual offences reported for every 100,000 people living in the BC. Alberta (90), Ontario (74) and Quebec (71) were the only provinces with lower rates. Rates in the other provinces ranged from 100 in Nova Scotia to 160 in Saskatchewan. The national rate was 86. The rate of reported sexual offences has been declining since the early 1990s, when it reached a high of 183 per 100,000 population in BC. The national rate also peaked (at 136) in the early 1990s. Vancouver (68) and Victoria (79) were in the mid-range among Canadian cities, in terms of the number of sexual offences reported relative to the population. The highest rates were observed in Saskatoon (155), Sudbury (119) and Regina (114). The lowest reported rate was in Ottawa (46, excluding the Gatineau area where the rate was 81).

  Source: SC, Catalogue 85-002, Vol 23, no 6

Infoline ***Issue: 03-30***
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Infoline Report

Issue: 03-30
July 25, 2003

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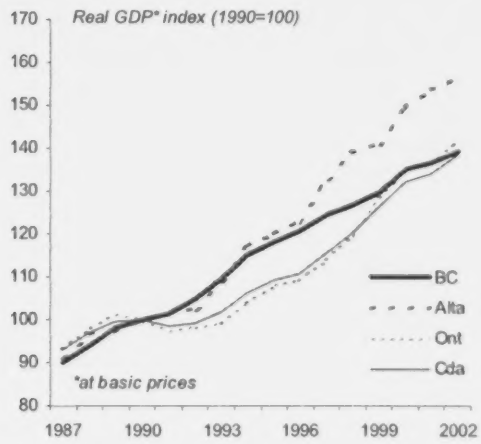
Originally published in *Business Indicators*, Issue 03-06. Subscription $60 + GST

The Productivity Puzzle—BC's Achilles Heel

BC's economy emerged from the Canadian recession of the early 1990s virtually unscathed, but since then has fallen behind the rest of the country

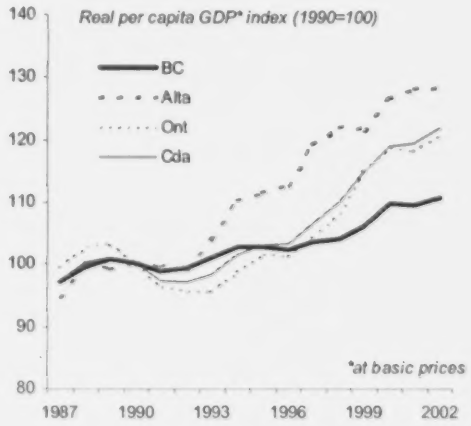


British Columbia's economy has undergone some structural shifts during the last decade. It began the 1990s on a strong note, emerging virtually unscathed from the recession of 1991, while economies in most other parts of the country took several years to bounce back to pre-recession levels. However, since the mid-1990s, the province's economic performance has been somewhat disappointing, as British Columbia has been unable to match the strong growth seen in other parts of the country.

Slower economic growth was masked for some time by population gains, which boosted the demand for goods and services

For some time, the emerging pattern of slower growth in BC during the 1990s was masked by continued strong population gains, which boosted the demand for goods and services produced in the province and helped keep the economy on an upward trend. Despite this, BC failed to keep pace with the rest of the country. The province, once a leader among the regions in terms of its ability to generate income, has slipped back to the tail of the pack, posting lower-than-average gains in gross domestic product (GDP, at basic prices) in every year since 1996[1]. As a result, BC has now fallen back into the ranks of the "have-not" provinces, leaving Alberta and Ontario as the only provinces that do not receive transfers under the Equalization Program.

While other provinces have made substantial gains since 1990, real per capita GDP in BC has been growing at a much slower rate than in other parts of the country



[1] All of the GDP figures quoted in this article are measured at basic prices, and in constant (1997) dollars. The data comes from the Industry Measures and Analysis Division of Statistics Canada.

Below-average productivity growth may have been one of the main reasons for BC's relatively lacklustre performance

There is some evidence to suggest that the underlying causes of BC's relatively weak growth may have some structural components. Declining business investment, particularly in the housing sector, was just one of the factors contributing to BC's relatively lacklustre economic performance during the 1990s. Another important factor was lower-than-average productivity growth in BC compared to the rest of Canada.

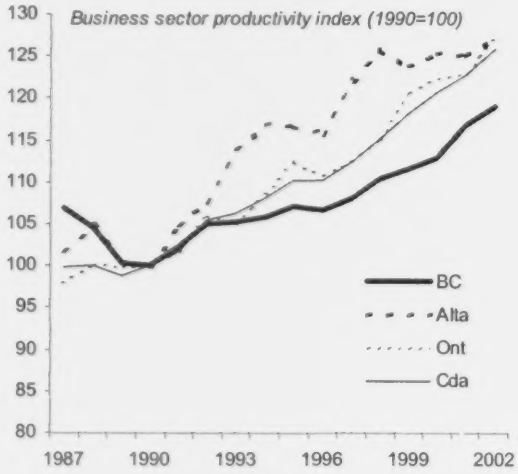
Sources of economic growth

A growing population, increased activity in the business sector, or rising external demand for goods and services produced in a province can all stimulate economic growth as businesses expand their output in order to meet demand. They can do this by increasing their use of either labour or capital (machinery, equipment and structures) inputs. Alternatively, output can rise as a result of productivity gains–technological advances that make it possible to use labour or capital inputs more efficiently to produce goods and services for sale to domestic consumers, or for export to other regions or countries. Unless labour or capital is being under-utilized, increased productivity is generally a more desirable source of growth, since it means that more output is produced with less effort, freeing up resources for alternative uses.

BC has lagged behind the rest of the country in terms of business sector productivity growth

A comparison of labour productivity[2] changes over time suggests that weak labour productivity growth has been a significant factor in British Columbia's below-average economic performance. Since 1990, real GDP per hour worked in BC has increased 19%, well below the national average (26%), and substantially less than in Alberta (27%) and Ontario (27%). New Brunswick (14%) is the only province that has seen slower productivity growth during this period. Newfoundland, where the development of an offshore oil and gas industry has pumped life into the economy, led the nation in terms of labour productivity growth (46%) during this period. Increases in most other provinces ranged between 24% and 28%.

Productivity growth in the province has been weak compared to other jurisdictions



Improvements in labour productivity are not always due to technological advances or increased efficiency on the part of workers. Because of the way in which it is measured, labour productivity growth may also be the result of a growing dependence on capital rather than labour inputs in production. This could be caused by changes in the production process, or it could reflect a structural shift in the economy, moving away from a dependence on labour-intensive industries such as fishing to more capital-

[2] All of the productivity measures quoted in this article are labour productivity measures. See the appendix for more information about how they are calculated.

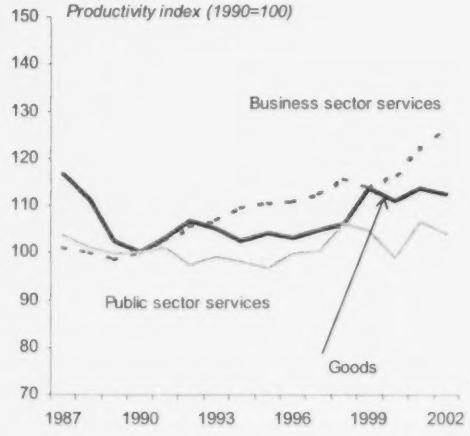
intensive industries such as offshore oil and gas extraction. This factor almost certainly played a role in the significant productivity gains made in Newfoundland over the last decade.

So what's been happening in BC?

In the case of BC, the situation is a little less clear cut. The province is much more dependent on service industries than most other parts of the country. Just over three-quarters (76%) of BC's GDP originated in the service sector in 2002. This compares to 61% in Alberta, 70% in Ontario, and 69% nationally.

A growing dependence on service industries in BC could be one reason for the slower than average increase in productivity. Generally speaking, labour productivity tends to be higher in the goods-producing industries than in the service sector, partly because these industries use more capital inputs in production. The relative importance of goods industries in BC (whether measured in terms of GDP or employment) has declined significantly since 1990.

Productivity gains in BC's service sector have been stronger than in the goods producing industries

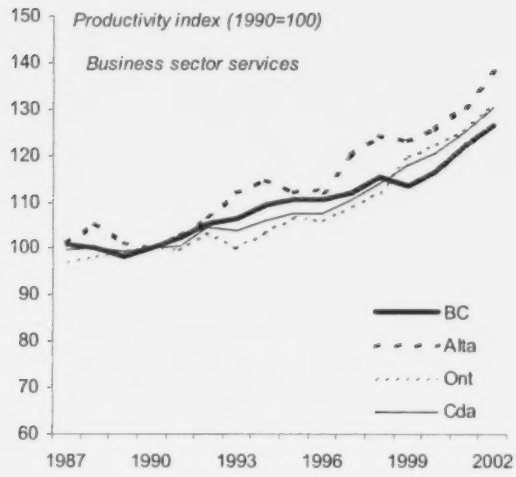


In both the goods and service-producing industries, BC has not been able to realize the same productivity gains that were seen in the rest of the country during the 1990s, although the difference is more marked in the case of goods-producing industries. The province's business sector service industries have exhibited stronger productivity growth than the goods industries during the last decade[3]. It appears that the role of services is at best only a partial explanation of the lower-than-average productivity growth that has occurred in BC during the last decade.

BC companies have not seen the productivity gains observed elsewhere in the country in both the goods…

[3] As might be expected, public sector services exhibit little change in productivity over the last decade. This is partly due to the way in which GDP in these industries is measured. The outputs of public sector services are not easy to measure. Hence, national accounting practices tend to equate inputs to outputs, thus resulting in an assumption of constant productivity.

...and service sectors



Why has productivity growth in the province been so weak compared to the rest of the country?

That question is difficult to answer, since many factors may be playing a role. It is possible that the shift towards more service-sector activity has helped keep the lid on productivity growth. Other factors are more difficult to assess. Are labour inputs used more efficiently in other provinces than in BC? Are there structural issues that make it more difficult for BC firms to adopt new processes and technologies that help improve productivity? Do the established industries in BC depend more on labour inputs than industries in other provinces because of the type of product that they are producing?

Whatever the reasons for BC's below-average productivity growth, this is a topic that deserves more study. It may well be that solving the productivity puzzle will be the key to restoring BC's position as one of the growth engines in the Canadian economy.

Appendix

Measuring productivity change: how it's done and what it means

Productivity changes over time are usually measured residually. We start by decomposing economic growth (or decline) into three components: the change in labour input, the change in capital input, and the remainder, which is attributed to productivity change. Unfortunately, measuring productivity is an imprecise science, since it is not always possible to disentangle all three effects.

The amount of labour used in production is relatively easy to measure, since one need only come up with estimates of the total amount of time workers actually spend on the job in a given period. Labour inputs are usually limited to a fixed number of hours or work per week or month, and generally speaking, are only paid for when they are being used.

However, capital assets-machinery, equipment and structures—must be paid for when they are purchased. This usually involves a large investment at a single point in time, after which the capital can be used on a more or less continuous basis for a long period of time. The lifetime over which a capital asset is available for use in production varies considerably among different types of assets. Identifying the amount of capital used in production is a non-trivial exercise. This is done at the national level, where Statistics Canada has been publishing estimates of total factor productivity for some time. These estimates show pure productivity growth, since both labour and capital inputs have been appropriately accounted for.

No comparable measures of total factor productivity are currently available at the provincial level. Instead, labour productivity[4], which measures the portion of economic growth that is not attributable to changes in labour inputs over time, is the only readily available measure. This muddies the waters somewhat, since it is not possible to disentangle the effect of productivity change from that of more intense use of capital in production. However, trends in labour productivity over time still provide a useful indication of the underlying reasons for economic growth or decline.

Labour productivity is best measured for the business sector—all economic activities excluding public administration, education and health & social services[5]. These three industries involve the production of services, the value of which is difficult to measure because they are not bought and sold in the marketplace. GDP figures for these industries are usually based on the amount of labour used in production, so by definition one would expect to see little change in labour productivity over time in these industries. In the market economy, where both goods and services are bought and sold, the value of output is easier to measure, at least in most cases.

[4] Labour productivity is calculated as the ratio of total output to the amount of labour used in production, which is typically measured as total hours worked.

[5] In fact, some health and education services (e.g., physicians, dentists and driver training schools) are provided by the private sector. However, it is not possible to disaggregate the GDP data for these industries into public and private sector components, so all of health and education is included in the public sector in this paper.

Infoline

July 25, 2003

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BC at a glance . . .

POPULATION (thousands)	Apr 1/03	% change on one year ago
BC	4,162.5	0.8
Canada	31,559.2	0.8
GDP and INCOME		
(BC - at market prices)	2002 Prelim.	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	134,365	2.7
GDP *($ 1997 millions)*	126,141	1.8
GDP *($ 1997 per Capita)*	30,459	0.8
Personal Disposable Income *($ 1997 per Capita)*	19,445	-0.2
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - May	2,760	-0.8
Merchandise Exports - May	2,494	2.5
Retail Sales - May	3,389	-0.5
CONSUMER PRICE INDEX		12-month avg
(all items - 1992=100)	Jun '03	% change
BC	120.2	2.6
Canada	122.1	3.3
LABOUR FORCE (thousands)		% change on
(seasonally adjusted)	Jun '03	prev. month
Labour Force - BC	2,188	-0.3
Employed - BC	2,007	0.1
Unemployed - BC	181	-4.0
		May '03
Unemployment Rate - BC *(percent)*	8.3	8.6
Unemployment Rate - Canada *(percent)*	7.7	7.8
INTEREST RATES (percent)	Jul 23/03	Jul 24/02
Prime Business Rate	4.75	4.50
Conventional Mortgages - 1 year	4.55	5.35
- 5 year	6.20	7.05
US/CANADA EXCHANGE RATE	Jul 23/03	Jul 24/02
(avg. noon spot rate) Cdn $	1.3991	1.5843
US $ *(reciprocal of the closing rate)*	0.7154	0.6318
AVERAGE WEEKLY WAGE RATE		% change on
(industrial aggregate - dollars)	Jun '03	one year ago
BC	688.57	3.0
Canada	659.76	1.4

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

For latest Weekly Financial Statistics see www.bankofcanada.ca

British Columbia Provincial Economic Multipliers and How to Use Them

Author: Garry Horne, April 2003

37 pages

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